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Judge Orders Rewald's Firm into Bankruptcy

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Discounting Ronald R. Rewald's claims that there are secret assets to cover some of the money owed investors in his company, a federal judge yesterday ordered the company into bankruptcy.

Rewald's attorney, Robert Smith, was obviously frustrated when U.S. Judge Martin Pence said he would not consider any of the secret affidavits and exhibits Smith had submitted in his attempt to account for some of the missing assets.

The secret documents apparently referred to Rewald's CIA connections in an attempt to explain why some Bishop, Baldwin, Rewald, Dillingham & Wong funds were unaccounted for and why some investments could not be discussed with investors.

For the first time yesterday, the CIA's position was stated clearly in one of the secret affidavits that was unsealed at the request of the U.S. Attorney's office.

Robert M. Laprade, attorney representing the CIA, said "the CIA did not cause Bishop, Baldwin, Rewald, Dillingham & Wong to be created nor has the agency at any time owned, operated, controlled or invested in BBRD&W . . . and the CIA was not aware of and has had absolutely nothing to do with Ronald Rewald's alleged appropriation to himself of the funds of BBRD&W or its investors."

PENCE MADE it clear early in the proceeding that he found nothing in any of the classified documents, which had been sealed by the court, that had any bearing on the creditors' motion that the company be forced into permanent bankruptcy.

Pence said the "classified assets" referred to in the secret documents are "pies in the sky" and have no bearing on the bankruptcy.

The judge also denied Smith's request that some of Rewald's frozen personal assets be released for use in his defense. After the hearing, Smith said he could not comment on how long he will continue to represent Rewald without being paid. He said he will appeal Pence's order to the 9th U.S. Circuit Court of Appeals.

Pence's ruling clears the way for a permanent bankruptcy trustee to be appointed and for the liquidation of company assets to begin so investors can get at least part of their money back.

INTERIM TRUSTEE Thomas Hayes said he probably will not be the permanent trustee. Trustees get paid 1 percent of all the money they handle. But with few actual assets left in the company, Hayes has said it is not feasible to continue the work needed to sort out the company's finances. It is possible he will be hired on a salary by the permanent trustee.

Smith apparently planned to rely heavily on Rewald's CIA connections to ward off the bankruptcy, but Pence issued his ruling based on a narrow aspect of U.S. bankruptcy law: Was the company paying its debts before it was forced into bankruptcy Aug. 4? Pence decided it was not.

Authorities have conceded that Rewald was a "bit player" for the CIA, but said he made more out of his involvement than there actually was.

UNABLE TO argue the CIA involvement, Smith could only point out that the situation the company found itself in at the end of July was "most irregular."

After Rewald's suicide attempt on July 29 the company shut its doors to avoid a "run" on the institution.

"No financial institution can be expected to have a run," Smith said.

But Robert Smolenski, representing the group of creditors who filed the bankruptcy petition, said that did not matter.

"Investors put in funds with the understanding that they were fully accessible," he said. When they demanded their money, they did not receive it. He pointed out that at least one investor had asked for his money before the suicide attempt and did not get it.

Smolenski said Hayes has put company assets currently at about \$650,000, while investors put at least \$12 million into the company.

Don Gelber, attorney for Hayes, echoed Smolenski's remarks, saying that the debts were not paid, "and no secret affidavit can change that."

SMITH SAID that although \$12 million may have been put into the company, only about \$6 million has been claimed so far by creditors. Smith implied that the remaining money was connected to the CIA and said the fact that no one has come forward to claim the rest "ought to raise a question."

Smith argued that some of Rewald's assets should be released to pay for his defense attorney because Rewald put up his own money as a down payment on his \$1 million home on Kalaniana'ole Highway, near Kulioouou.

He said Rewald has been unable to defend himself because of the court orders freezing his assets. "In our legal system, a man is entitled to a defense," Smith said.

But Smolenski pointed out that Rewald is responsible for some creditors' not having the money needed to prosecute their claims against the company and that, in effect, Rewald is asking for a loan from them to defend himself.

"We don't like his credit," Smolenski said.

Gelber likened Rewald's request to a person who kills his parents and then throws himself on the mercy of the court because he is an orphan.

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